

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 EUR-12 ISO-00 L-02 H-01 SP-02 AID-05

NSC-05 RSC-01 CIEP-01 TRSE-00 SS-15 STR-01 OMB-01

CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02

OPIC-03 LAB-04 SIL-01 DODE-00 PA-01 USIA-06 PRS-01

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R 291721Z JAN 75

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 1956

INFO AMEMBASSY PARIS

C O N F I D E N T I A L SANTIAGO 0624

EO 11652: GDS

TAGS: EFIN, CI

SUBJECT: SUSPENSION OF CHILEAN DEBT SERVICE

REF: SANTIAGO 0567

1. SUMMARY. IN VIEW OF PRECARIOUS CHILEAN BALANCE OF PAYMENTS SITUATION, EMBASSY RECOMMENDS USG AGREE TO CHILEAN REQUEST THAT ALL 1975 GOVERNMENT-TO-GOVERNMENT DEBT SERVICE BE SUSPENDED PENDING OUTCOME 1975 PARIS CLUB AND BILATERAL NEGOTIATIONS. END SUMMARY.

2. IT IS UNFORTUNATE THAT GOC USED RATHER OFFHAND MANNER DESCRIBED REFTTEL TO REQUEST CREDITOR COUNTRY AGREEMENT TO SUSPENSION 1975 DEBT SERVICING PENDING OUTCOME PARIS CLUB AND BILATERAL NEGOTIATIONS. PERHAPS CHILEANS WERE LULLED INTO NONCHALANCE BY 1973/74 EXPERIENCE WHEN THERE WERE APPARENTLY NO OBJECTIONS TO SIMILAR DE FACTO ARRANGEMENT. FROM HERE IT WOULD SEEM THERE IS DISTINCT POSSIBILITY THAT VARIOUS CREDITORS, PARTICULARLY WESTERN EUROPEAN, WILL REFUSE MORATORIUM IF SPECIFICALLY ASKED THIS YEAR.

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3. WE BELIEVE IT IS IN U.S. INTEREST TO KEEP CHILE FROM GOING TECHNICALLY INTO DEFAULT WHILE AT SAME TIME WE SHOULD AVOID IMPOSITION OF ADDITIONAL PRESSURE ON SCANTY CHILEAN FOREIGN EXCHANGE RESOURCES. ON SECOND POINT, PAST EXPERIENCE INDICATES THAT IT IS LIKELY TO BE WELL PAST MID-YEAR BEFORE MANY BILATERALS WILL BE SIGNED. TO REQUIRE CHILEANS TO MAKE REGULAR PAYMENTS PENDING FINAL AGREEMENT WOULD NEGATE MUCH OF IMMEDIATE BENEFIT OF RESCHEDULING EXERCISE AND POSSIBLY PREJUDICE MAGNITUDE OF RELIEF WHICH CREDITORS WOULD BE WILLING TO OFFER. REBATES OF CHILEAN PAYMENTS MADE PRIOR TO FINAL AGREEMENT WOULD BE DIFFICULT FOR CREDITORS TO JUSTIFY. IT IS ALSO DOUBTFUL THAT CHILE HAS THE RESOURCES TO CARRY FULL PAYMENT FOR VERY LONG.

4. OUR UNDERSTANDING IS THAT SHOULD CHILE GO INTO DEFAULT, WE WOULD HAVE TO CEASE DISBURSEMENT UNDER EXISTING LOANS. THIS WOULD BE A TREMENDOUS BLOW TO GOC. OUR RECOLLECTION IS THAT CHILE DID GO INTO DEFAULT DURING ALLENDE YEARS AND THAT DESPITE THIS, AID DISBURSEMENT CONTINUED BECAUSE OF FINDING BY SECRETARY ROGERS THAT SUCH ACTION WAS IN U.S. NATIONAL INTEREST. DEPARTMENT MAY WISH TO REVIEW THIS DECISION TO SEE IF IT HAS ANY APPLICATION TO OUR PRESENT SITUATION.

5. RECOMMENDATION: BELIEVING THAT IT WOULD BE COUNTER-PRODUCTIVE TO UNDERMINE OUR POLICY OF ECONOMIC ASSISTANCE TO CHILE BY A HARD LINE ON THIS QUESTION, WE RECOMMEND THAT USG RELIEVE GOC FROM ANY 1975 DEBT SERVICE ON GOVERNMENT-TO-GOVERNMENT CREDITS (INCLUDING THOSE OF THIRTY YEARS OR MORE AND DEBTS FROM 1965 RESCHEDULING EXERCISE) PENDING THE CONCLUSION OF 1975 DEBT RENEGOTIATION EXERCISE.

6. WE WOULD APPRECIATE SOONEST DEPARTMENT'S REACTION.
POPPER

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